

## FINAL EXAMINATION

Answer any Three (take-home version, any five)

### Exchange Rates

1. What considerations are critical (Brief History of Funny Money) in deciding whether to peg or float a currency? What is the rationale underlying each factor?
2. What considerations does the IMF feel are important for developing countries in deciding how to set their exchange rate ("Fixed or Flexible? Getting the Exchange Rate Right in the 1990s")? What appear to be some of tradeoffs involved in setting exchange rates?
3. What are the advantages of a strong dollar? A weak Dollar? Which would you consider to be the best for the United States? Why?
4. What are the main dilemmas (Rodrick) facing nations in the global economy today? What factors create these dilemmas? How does Rodrick see the world economy evolving? Do you agree with his assessment? Why or why not?
5. Bhagwati outlines the main factors that should be considered prior to designing any new, world monetary system. What are these factors and which do you feel are most critical in establishing a new system?

### Dollarization

6. What is dollarization? The factors that have contributed to de facto dollarization? Following Mann and Sachs what are the main benefits of dollarization? The costs? Alternatives to dollarization?
7. Following Bergsten (Dollarization in Emerging Market Economies) what are the currency choices facing emerging market economies? What are currency boards and does dollarization have any advantages over this type of system? Explain? What are the implications of dollarization for the United States?

### Macroeconomics

8. Several schools of thought have tried to explain the factors that led to the 1930s depression. What are these schools and their assumptions about the factors that contributed to the depression? Which of these theories to you feel provides the best insights to today's economy? Why?
9. Martin Wolf (After the Crash) notes a number of reasons why Americans should be worried over the state of the economy in the near term? What are his main concerns? Do his arguments seem sound or do you feel they are conjectural? Explain.
10. Blinder summarizes what he feels are the main elements that would be included in a core

Macroeconomic model. In doing so he utilizes the LM/IS framework. What are these curves and how does he use them to provide insights as to how the economy functions? What other elements are central to his approach?

11. Keynesians and Monetarists approach many policy issues from different perspectives. What are the main areas of disagreement? What critical ways do the two schools differ in their approach to policy issues? The assumptions underlying these approaches?

12. Hufbauer et al ask whether or not Macroeconomics is dead. What are their main concerns? The relationships in macroeconomics they feel are becoming less reliable? In the end, is there reason to feel that macroeconomics is dead? Why or why not?

#### United States Economy/Economic Policy

13. Alan Meltzer summarizes U.S. policy in the Bretton Woods Era. What were some of the major policy issues during this period? What factors appear to have lead to the demise and eventual collapse of the Bretton Woods System?

14. Paul Krugman asks whether American can stay on top. What are some of the factors examined by him to shed light on this issue? The conclusions drawn by him? Do you agree with his assessment or do you find something lacking?

15. In his review of the literature John Taylor assesses the issue of American economic policy in the 1980s. What were the main policy shifts during this period? Do you feel they were a watershed or pendulum swing?

#### National Economic Performance

16. What are the seven signs of non-competitive states identified by Ralph Peters? How does he see the world system evolving? What are the implications for national policy?

17. Alan Reynolds documents certain patterns between economic policy and performance. What are some of the actual situations he cites? His main findings/conclusions?

#### The Global Economy

18. Norman Fielke identifies several widely held popular misconceptions about the world economy. What are these myths and why do you feel they have been so widely-held?

19. What do Haas and Litan conclude as to the best policy approach towards globalization? What assumptions underlie their position? Do you agree? Why or why not?

20. The bi-annual IMF World Economic Outlook (WEO) seeks to identify the likely economic prospects and policy challenges for the world economy (October, 2000, Chapter 1). What are some of the main areas identified in the Fund's current assessment?

21. In its current World Economic Outlook the IMF focuses (October, 2000, Chapter 2) on four key issues: productivity, developments in global equity markets, international capital flows and commodity prices. Write a brief essay on the key issues in each area. What is the importance of each issue?

### NDU Chapters on Globalization

22. In their most recent Strategic Assessment, NDU authors identify (Chapter 1) a number of recent negative events that they consider to be a warning of future possibilities. In your opinion, which events are most significant? What might they lead to in the future?

23. Chapter 2 of NDU's 1999 Strategic Assessment globalization and its impact on the United States economy and national security. What are the main challenges and opportunities presented by globalization? The policy implications for the United States?

24. The NDU report notes that in the coming years, energy and resource issues will continue to shape international security. What are the main factors at work and the main scenarios implied? Which scenario seems most likely?

### Foreign Aid

25. Many policymakers have become frustrated with foreign aid's seemingly inability to improve conditions in developing countries. As a result a number of recent evaluations have tried to determine the factors that influence aid's effectiveness. Of these studies the most influential have been those undertaken by the World Bank (IBRD). Briefly outline the main findings regarding Aid arrived at by that organization.

26. Ian Vasquez (Official Assistance, Economic Freedom, and Policy Change) argues that in recent years aid agencies have not allocated aid effectively. What are his basic arguments and the evidence he uses to make his case? Do you find his arguments sound? Why or why not?

27. Bauer and Yamey have been the most persistent critics of foreign aid. What are their main arguments? Do they make a convincing case?

### IMF and World Bank

28. Ray Mikesell (Bretton Woods—Origins Intentions and Current Problems) provides an overview of the Bretton Woods institutions. Following his analysis, what were some of the conflicts that arose over the initial charter of these institutions? The current problems facing the institutions?

29. Fred Bergsten (The International Monetary Fund and the National Interests of the United States) looks at the costs and benefits to the United States as a result of membership in the Fund. What are these costs and benefits? The main criticisms of the Fund? Based on his assessment do you feel the Fund is in the best interests of the US? Why or why not?

30. Michael Frenkl (An Analysis of Competing IMF Reform Proposals) surveys the main criticisms of the Fund. Outline the main proposals for reform and within the context of the "trilemma of economic integration."

31. Anne Krueger (Whither the World Bank and the IMF) traces the history of the IMF and World Bank. Based on her assessment, do you feel the institutions are no longer useful and should be shut down? Or are reforms of the institutions a superior alternative? Explain?

32. According to Chari and Kehoe (Asking the Right Questions About the IMF) the IMF and World Bank are coming under increased criticism. As outlined by them what are the main criticisms of these organizations? Possible solutions?

### Capital Flows/Credit Ratings

33. Global capital flows, public and private, are receiving increasing attention in the literature. Bhagwati, a free trader, is somewhat skeptical of the merits of unrestricted capital flows? What are his arguments on this issue? Do you feel the case for free capital movements is as strong as free trade? Why or why not?

34. The IMF has tried to determine the factors that ultimately underlie the leading creditworthiness ratings provided by leading institutions. What elements does the Fund look at and what is the main conclusion of their findings?

35. The New York Federal Reserve has just completed a study examining the underlying determinants of Moody's and Standard and Poor's Sovereign credit ratings. What are Sovereign ratings, and the main findings of this analysis. What might countries do to improve their credit ratings?

### Europe/The Euro/EMU

36. Following Gwen Eudey what are the benefits of adopting the EURO? The costs? What factors would contribute to these costs and the benefits? On balance does the EURO appear to be a good idea?

37. The pronounced decline in the euro's exchange rate since the start of 1999, especially against the US dollar, has led to questions concerning the competitiveness of the euro zone. Following Hinze (Does a Weak Euro Signify Poor Competitiveness of the Euro Zone)? what are the main explanations of the depreciation of the euro against the dollar? Does the weak Euro stem from a lack of competitiveness in the Euro Zone?

38. Jeffrey Frieden assesses the apparent winners and losers resulting from the establishment of the EURO. What are his main findings? Do you agree with his assessment? Why or why not?

39. What factors might result (Muller, From Dollarisation to Euroisation) in the Euro replacing the Dollar through national currency substitution in countries on the periphery of the Euro zone? Do you see this happening? Why or why not?

40. Jeffrey Wrase traces the history of the EURO. What are the key developments leading up to the establishment of the EURO? What are the chief duties and responsibilities of the new European Central Bank (ECB)? In what ways will the ECB be similar to the US Federal Reserve Bank? Different?

41. Bernhard Herz examines Greece's entry into the EMU. Following his arguments: How was Greece able to comply with the convergence criteria? What are the costs and benefits of its accession from both the Greek and the present EMU members' perspectives? Is the current process of economic reform in Greece sustainable? Do you agree with his assessments? Why or why not?

### Latin America

42. Following the Economist (The Slow Road to Reform) outline some of the current difficulties facing the Latin American economies. Why do some seem to be thriving and others not?

43. What appear to be the main implications of the Euro for Latin America (R. Dornbusch, The Euro: Implications for Latin America)?
44. Briefly discuss the reasons (Velde, Dollarization in Argentina) for Dollarization in Argentina. How does the system work? The problems associated with Dollarization? The benefits?
45. Ricardo French-Davis (Policy Implications of the Tequila Effect) assesses the problems associated with capital flows in Latin America? Following French-Davis what are the main difficulties associated with capital flows? The policy solutions?
46. Briefly summarize several of the main trends associated with defense expenditures in Latin America? What role does military influence (Looney and Frederiksen (The Effect of Declining Military Influence on Defense Budgets in Latin America) appear to play in explaining these patterns? Are other factors also at work?
47. Who are the Chicago Boys, their policies and programs. Why have they become so controversial in Chile.

#### Transition Economies

48. The IMF (Exchange Rate Regimes in Selected Advanced Transition Economies--Coping with Transition, Capital Inflows, and EU Accession) outlines the currency/exchange rate options facing transition economies before their accession to the EU. What are the main issues and which strategies appear the most sound?
49. Capital flight from Russia has been a major problem for that country. What policy options (IMF, Capital Flight from Russia) appear to be the most productive in stemming this flow? Are capital controls a possible solution? Why or why not?
50. The IMF has undertaken extensive study of the Transition Economies. Briefly outline the main policy lessons they draw (WEO, Chapter 3) from this experience.
51. The IMF has also examined the likely benefits, costs and risks associated with accession of the transition economies into the EU. What are the relevant factors examined (WEO, Chapter 4) by the IMF? The Fund's main conclusions on the issue.

#### Middle East

52. According to Bakheet, it is critical for the GCC countries to develop stock markets? What are his main assumptions and do you find them convincing? Why or why not?
53. Jaber (GCC Financial Markets and the Quest for Development) assesses the structure and economic role of financial markets in the GCC. What are the main patterns identified by him? What are the main changes needed if the sector is to grow in stature, playing a prominent role in the international economy?
54. What are some of the main issues surround the use of migrant workers in the Gulf Countries (Mellahi, Local Workers in gulf Co-Operation Countries)? Possible solutions?

### East Asia

55. What were the main lessons Rodrik drew from this examination of the Asian Crisis? Why have some countries recovered while others are still languishing? What additional policy implications does he draw? From what you know about the crisis, has he identified the main mechanisms at work or are there alternative interpretations?

56. Crafts (Implications of Financial Crisis For East Asian Trend Growth) attempts to assess the factors associated with the Asian Crisis and their implications for policy. What are his main findings and policy recommendations? Do you agree with his assessment? Why or why not?

57. Briefly outline the main points contained in the Economist's recent (Asia's rollercoaster Rides, October 21, 2000) assessment of East Asian Economies. Which countries appear better off? In trouble? Why?

58. James Dean notes that those who oppose an IMF-led bailout fall into three misguided camps fall into three groups, fiscal conservatives, left-wing moralists, and right wing academics. What are the positions of these groups? Why does Dean feel their positions are questionable? What is his interpretation of the Crisis?

59. Following Graham Bird (Miracle to Meltdown) what factors led to the Asian crisis in spite of high rates of growth in previous years? What are the chances for recovery?

60. In light of the Asian Crisis, Williamson questions the wisdom of fixed exchange rates (to the dollar) in the region. What are the alternatives? Their merits and shortcomings? Policy recommendations?

### Africa

61. South Africa has experimented with economic policy in recent years. That country's Macroeconomic program GEAR (Growth, Employment and Redistribution) has run into some troubles. What is the nature of that program and the possible causes for its lack of success?

62. Briefly describe Sub-Saharan Africa's recent attempts at fiscal adjustment and financial management. What were the main accomplishments? The main challenges that lie ahead?

63. What are the main lessons provided by the Asian Crisis to Uganda, a country just starting to develop its financial system?

64. Recent years have seen a number of articles explaining Africa's economic problems. Following Collier (Explaining African Economic Performance) what appear to be the critical factors in accounting for that region's poor economic performance in recent decades?

65. John Sender (Africa's Economic Performance: Limitations of the Current Consensus) also surveys the main themes in the literature attempting to explain Africa's economic difficulties. What are the main approaches and their key elements? Finally he draws a distinction between "people friendly development" and "tragic optimism". What are the key elements in each and which do you feel presents a better framework for examining the region's economies? Why?